

Message Text

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC IMMEDIATE 9047

C O N F I D E N T I A L SANTIAGO 3557

EXDIS

E.O. 11652: GDS

TAGS: EIND, CI

SUBJECT: ANACONDA

REF: SANTIAGO 3507

1. SUMMARY: QUIGLEY REPORTS RETROGRESSION IN TALKS WITH PHILIPPI AND HIS INTENTION BREAK OFF TALKS IF GOC OFFER NOT SUBSTANTIALLY IMPROVED. END SUMMARY
2. QUIGLEY AND BILGORE CALLED ON ME THIS MORNING, JUNE 18, TO PROVIDE STATUS REPORT ON NEGOTIATIONS.
3. AT OUTSET OF MEETING QUIGLEY ASKED WHETHER I HAD SEEN ADMIRAL MERINO AND WHAT HIS REACTION HAD BEEN. I REPORTED ALONG LINES OF REFTEL.
4. ACCORDING TO ANACONDA REPRESENTATIVES, YESTERDAYS'S MEETING WITH PHILIPPI PRODUCED BACKWARD MOTION FROM POINT THEY THOUGHT THEY HAD REACHED IN CONVERSATIONS IN WASHINGTON.
5. PHILIPPI IS STILL TALKING IN TERMS OF AN ALMOST TOKEN AMOUNT FOR THE REMAINING 49 PERCENT. PHILIPPI HAS INTIMATED THAT EXCESS PROFITS PROBLEM COULD BE HANDLED SO THAT IT MIGHT NOT APPEAR AS A DEDUCTION OF EXCESS PROFITS AS SUCH, E.G., BUT PRODUCING A GLOBAL SETTLEMENT FIGURE FROM WHICH SOME KIND OF TRANSFER TAX WOULD BE DEDUCTED TO PRODUCE NET PAYMENT DUE. NEVERTHELESS, PHILIPPI IS STILL INSISTING ON A DEDUCTION OF ABOUT \$130 MILLION.

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6. QUIGLEY SAID THAT A SETTLEMENT IN THIS RANGE WAS SIMPLY NOT ATTRACTIVE TO ANACONDA AND COULD NOT BE JUSTIFIED TO SHAREHOLDERS FOR A VARIETY OF REASONS, INCLUDING THE EXISTENCE OF VALUABLE TAX WRITE-OFFS. IF THE CHILEANS DID NOT COME FORTH WITH AN OFFER CLOSER TO BOOK VALUE, HE PLANNED TO BREAK OFF TALKS -- THOUGH LEAVING THE DOOR OPEN FOR THE CHILEANS TO RECONSIDER THEIR POSITION.

7. I SUGGESTED THAT, SINCE PHILIPPI WAS DISCUSSING COSMETIC DEVICES TO HANDLE THE EXCESS PROFITS PROBLEM, THE REAL STUMBLING BLOCK MIGHT BE INABILITY TO AGREE ON A "BOTTOM-LINE" FIGURE. I ASKED WHETHER ANACONDA HAD THOUGHT OF TRYING TO INSERT A THIRD-PARTY INTO THE NEGOTIATIONS TO MAKE A TECHNICAL FINDING AS TO WHAT A REASONABLE "BOTTOM-LINE" FIGURE MIGHT BE. QUIGLEY ASKED WHETHER I MEANT BINDING ARBITRATION. I SAID THAT COULD BE ONE DEVICE BUT OTHERS COULD ALSO BE ENVISAGED. QUIGLEY DID NOT ANSWER THE QUESTION.

8. ANACONDA REPS LUNCHEONED WITH RAUL SAEZ YESTERDAY BUT DESCRIBED THIS AS PRIMARILY SOCIAL EVENT. THEY HAVE A TENTATIVE APPOINTMENT WITH HIM FOR SUBSTANTIVE DISCUSSION PERHAPS AS EARLY AS THIS AFTERNOON. QUIGLEY SAID THAT, BEFORE BREAKING OFF TALKS, HE PLANNED STATE ANACONDA'S CASE TO APPROPRIATE MEMBER OF JUNTA.

9. I INFORMED QUIGLEY THAT, PRIOR TO LEARNING THAT THE ANACONDA TEAM WAS ARRIVING, I HAD INVITED RAUL SAEZ FOR LUNCHEON TODAY AND INVITED HIS SUGGESTIONS OF ANYTHING USEFUL WHICH COULD BE SAID TO SAEZ CONCERNING THE NEGOTIATIONS. QUIGLEY SUGGESTED ONLY THAT I REPEAT TO SAEZ THE ESSENCE OF DEMARCHE MADE TO MERINO, WHICH I SAID I WOULD BE DOING IN ANY EVENT.
THOMPSON

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